

NEW JERSEY DIVISION OF TAXATION

TECHNICAL BULLETIN

TB-44

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TAX: GROSS INCOME TAX

TOPIC: ROTH IRAs

P.L. 1998, c. 57, which was signed into law on July 24, 1998, conforms the New Jersey gross income tax treatment of Roth IRAs to the Federal treatment. Beginning in 1998, contributions to Roth IRAs are not deductible but qualified distributions from them are not includable in New Jersey gross income. *Not all taxpayers are qualified to establish a Roth IRA. Contact the Internal Revenue Service to see if you qualify.*

Establishing Your Roth IRA

Beginning in 1998, taxpayers, regardless of age, may be able to establish a Roth IRA. Contributions may be made either directly or rolled over from a traditional IRA.

Direct Contributions. Contributions to Roth IRAs may not be deducted on New Jersey income tax returns.

Rollovers. You can withdraw all or part of the assets from an existing traditional IRA and reinvest them (within 60 days) in a Roth IRA if you satisfy the Federal requirements. In most cases, your contributions to a traditional IRA were previously taxed in New Jersey. However, accumulated earnings in a traditional IRA have not been previously taxed and must be included in New Jersey gross income in the year they are withdrawn. Also, any amounts rolled over from a traditional IRA to a Roth IRA which were not previously taxed by New Jersey, such as a rollover distribution from an employer's 401(k) plan, must be included in New Jersey income (both principal and earnings) in the year withdrawn from the traditional IRA.

Reporting Distributions Made Before January 1, 1999. New Jersey has adopted the same four-year rule as Federal for reporting taxable income on amounts withdrawn from a traditional IRA and converted to a Roth IRA. If you roll over an existing IRA to a Roth IRA prior to January 1, 1999, and make a Federal election to spread the income over a four year period, you must **also** spread the amount that is taxable for New Jersey purposes over a four year period. Report this income each year on the New Jersey return as taxable pensions and annuities (Line 19a, Form NJ-1040 or Line 41, Column A, Form NJ-1040NR).

Reporting Distributions Made After December 31, 1998. If you roll over a traditional IRA into a Roth IRA after December 31, 1998, the entire taxable portion must be reported as income on your New Jersey return in the year withdrawn.

Qualified Distributions

A qualified distribution from a Roth IRA is excludable and should not appear anywhere on the New Jersey return. A "qualified distribution" is one which is made:

1. On or after the date on which the individual reaches age 59½; or
2. To a beneficiary (or the individual's estate) after the individual's death; or
3. Because the individual becomes disabled; or
4. As a qualified first-time home buyer distribution as defined by the Internal Revenue Code.

In addition, a distribution will not be treated as a qualified distribution if it does not meet the Internal Revenue Service's "five-year rule" exception. Under this "five-year rule," a taxpayer who establishes a Roth IRA in 1998 will not be able to receive a "qualified distribution" before 2003. Contact the Internal Revenue Service for more information on the five-year rule.

Nonqualified Distributions

A nonqualified distribution is one which is not made under one of the four circumstances above or one which does not meet the five-year rule. A distribution which is considered nonqualified for Federal income tax purposes is also considered nonqualified for New Jersey income tax purposes.

Taxable Portion. In the case of a nonqualified distribution from a Roth IRA, taxable amounts withdrawn are reported on the New Jersey tax return as taxable pensions and annuities (Line 19a, Form NJ-1040 or Line 41, Column A, Form NJ-1040NR). The New Jersey taxable portion of a nonqualified distribution from a Roth IRA is calculated in the same manner as a distribution from a traditional IRA, using the IRA Worksheet. For information on calculating the taxable portion, see the income tax return instruction booklets, or request Tax Topic Bulletin GIT-2, *IRA Withdrawals*.

Exclusions. Because nonqualified distributions are reported as pension and annuity income, the same income exclusions may apply.

For more information on reporting pension and annuity income, including income exclusions, on your New Jersey income tax return, request Tax Topic Bulletin GIT-1, *Pensions and Annuities*.

For more information, contact the Division's Customer Service Center at 609-292-6400, email us at taxation@tax.state.nj.us, or write to:

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Many State tax forms and publications are available by fax and through our Web site. Call NJ TaxFax at 609-826-4500 from your fax machine's phone, or access the Division's home page at: www.state.nj.us/treasury/taxation/
